

# **CITY OF HUNTINGTON PARK**

Community Development Department  
Oversight Board Agenda Report

September 22, 2014

Honorable Chair and Members of the Oversight Board to the Successor Agency of the  
City of Huntington Park  
6550 Miles Avenue  
Huntington Park, CA 90255

Dear Oversight Board Members:

## **APPROVAL OF AN EMERGENCY LOAN TO THE SUCCESSOR AGENCY FROM THE CITY OF HUNTINGTON PARK FOR THE PAYMENT OF THE YIELD REDUCTION PENALTY/ARBITRAGE REBATE PAYMENT TO THE INTERNAL REVENUE SERVICE**

### **IT IS RECOMMENDED THAT THE OVERSIGHT BOARD:**

1. Approve an emergency loan to the Successor Agency from the City of Huntington Park in the amount of approximately \$3.4 million for the yield reduction penalty/arbitrage rebate payment to the Internal Revenue Service (the IRS); and
2. Authorize the City Manager to execute the agreement.

### **BACKGROUND**

The City in the 2004 Bonds purchased an escrow at a yield substantially higher than the yield on the original 1994 Bonds thereby generating a substantial yield reduction penalty of approximately \$5.5 million which must be rebated to the IRS. Initially, the Successor Agency was expectant that the yield reduction penalty to the IRS could be offset by savings from the refinancing of the 2004 Bonds and the 2007 Lease Revenue Bonds (the "Refunding Bonds"); however, the Department of Finance (DOF) was not receptive to the Successor Agency's request to refund the yield reduction penalty as a component of the Refunding Bonds. As a consequence upon the refinance of the 2004 Bonds, the Rebate Payment to the IRS is due within 60 days of such refinancing.

A payment of the full amount is due immediately with the total amount due within 60 days of issuance of the Refunding Bonds. It was contemplated that a the penalty would be made with a portion of sale proceeds of the Southland Steel property and other Successor Agency real estate assets, the timing on the Southland Steel transaction does not align with IRS payment requirements.

**APPROVAL OF A EMERGENCY LOAN TO THE SUCCESSOR AGENCY FROM THE CITY OF HUNTINGTON PARK FOR THE PAYMENT OF THE YIELD REDUCTION PENALTY/REBATE PAYMENT TO THE INTERNAL REVENUE SERVICE**

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As such, staff recommends that the City provide a loan to the Successor Agency with such loan repaid to the City upon closing of the Southland Steel transaction.

**FISCAL IMPACT/FINANCING**

The Yield reduction penalty to the IRS is **mandatory**.

The \$3.4 million represents a designated portion of the City's general fund balance and a drawdown to make the Yield reduction penalty is expected to be a short-term loan. Should the Southland Steel property not close, then the City's fund balance will be reduced to \$6.6 million. This amount barely sufficient to cover working capital requirements. This loan will be placed on the FY 14-15B ROPS. We anticipate that the DOF will approve the emergency loan as a result of last week's meeting.

**REQUIRED APPROVALS AND AUTHORIZATIONS**

In order to carry out this obligation, certain authorizations and approvals are necessary:

1. Approval of a Loan Agreement between the City as lender and the Successor Agency as the borrower for purposes of extinguishing the yield reduction penalty.
2. Authorize the City Manager to execute the agreement and ensure that the transaction is reflected timely in the financial records of the Successor Agency and City.

**CONCLUSION**

Staff recommends that the Oversight Board approve the emergency loan to the Successor Agency for the purpose set forth in this resolution.

Respectfully submitted,



JULIO MORALES  
Interim City Manager

**ATTACHMENTS**

Attachments

- A: Loan Agreement between the City of Huntington Park and the Successor Agency
- B: Resolution

2014

CITY OF HUNTINGTON PARK

-and-

CITY OF HUNTINGTON PARK AS  
SUCCESSOR AGENCY TO THE  
FORMER HUNTINGTON PARK COMMUNITY  
DEVELOPMENT COMMISSION

SUCCESSOR AGENCY LOAN AGREEMENT

No. \_\_\_\_\_(ROPS-14-15B)

(NOT TO EXCEED: \$3,400,000)

THIS SUCCESSOR AGENCY LOAN AGREEMENT No. \_\_\_\_\_ (the "Loan Agreement") is dated as of \_\_\_\_\_, 2014 by and between the City of Huntington Park, a municipal corporation (the "City") and the City of Huntington Park, as successor agency to the former Huntington Park Community Development Commission, a public body corporate and politic (the "Successor Agency") and is entered into in light of the following facts:

-RECITALS-

1. The City authorized the formation and operation of a community redevelopment agency within the territorial jurisdiction of the City pursuant to state law.
2. The former Huntington Park Community Development Commission (the governing board of the Huntington Park Redevelopment Agency) undertook the redevelopment of certain areas of the City in reliance upon the provisions of state law and the former Huntington Park Community Development Commission entered into certain contracts, expended public funds, incurred indebtedness and assumed certain obligations and liabilities with third parties in reliance upon applicable State and federal law in order to eliminate and prevent the spread of blight and to enhance and preserve the supply of affordable housing within the City.
3. The State of California (the "State") has ordered the former Huntington Park Community Development Commission to be dissolved under the provisions of ABX1 26 (Stats 2011-12, 1<sup>st</sup> Ex. Sess., Chapter 5), as amended by AB 1484 (Stats 2012, Chapter 26), and collectively the State legislation identified in this sentence is referred to herein as the "State Redevelopment Dissolution Law."

4. The City as Successor Agency to the former Huntington Park Community Development Commission ("Successor Agency") has initiated the implementation of the State Redevelopment Dissolution Law including the repayment of existing obligations, the marshaling of cash assets, non-cash assets and liabilities and the preparation of land assets for disposition and sale to third parties (including without limitation so-call "Land Held for Resale") of the former Huntington Park Community Development Commission subject to the payment of enforceable obligations of the former Huntington Park Community Development Commission under applicable State and federal law, and such implementation of the State Redevelopment Dissolution Law has included, the preparation and submission to the State by the Successor Agency of a recognized obligation payment schedule for the period of January 1, 2015 to June 30, 2015, ("ROPS-14-15B") as provided under Health and Safety Code Section 34177.
5. Health and Safety Code Section 34173(h) provides authorization for the City to loan funds to the Successor Agency to pay for administrative costs, enforceable obligations, or project-related expenses, at the discretion of the City, and that such a loan shall be reflected on the recognized obligation payment schedule of the Successor Agency, which is subject to the approval of the Oversight Board for the Successor Agency.
6. The City and the Successor Agency have both determined that it is necessary and appropriate to enter into the Loan Agreement, as herein provided below, in order that the Successor Agency may comply with the State Redevelopment Dissolution Law and pay to the United States Treasury a certain arbitrage rebate liability in the amount of \$3,400,000 as an Enforceable Obligation of the Successor Agency as set forth in Line Item No. \_\_\_\_ of ROPS-14-15A and Line Item No. \_\_\_\_ of ROPS-14-15B.

**FOR AND IN CONSIDERATION OF THE MUTUAL COVENANTS AND AGREEMENTS HEREINAFTER SET FORTH, THE CITY AND SUCCESSOR AGENCY AGREE AS FOLLOWS:**

SECTION 1. **Recitals.** The City and Successor Agency represent and warrant to each other that the information set forth in the preceding recital paragraphs is true and correct and is hereby incorporated into this Loan Agreement by reference as if fully set forth. The City and the Successor Agency each acknowledge receipt from the staff of the Successor Agency a draft document entitled "ROPS-14-15B Emergency Loan" (Arbitrage Rebate Liability). A copy of the draft "ROPS-14-15B" document will be been delivered by the Successor Agency to the members of the Oversight Board. The purpose of this Loan Agreement is to satisfy the provisions of Health and Safety Code Section 34173(h) and to evidence an enforceable obligation of the Successor Agency which arises in favor of the City, in order for the Successor Agency to comply with its prior obligations under the State Redevelopment Dissolution Law and other applicable

State and federal law including the obligation of the Successor Agency to pay the United States Treasury the arbitrage rebate liability amount as due under

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SECTION 2. **Loan.** The City hereby agrees to make available from the available funds of the City as a loan to the Successor Agency (herein, the Loan”) a sum not-to-exceed Three Million Four Hundred Thousand Dollars (\$3,400,000) to be used by the Successor Agency solely as set forth in Section 3. Subject to the approval of this Loan Agreement by the Oversight Board, and the concurrence of the State Department of Finance (“State DOF”), the City shall make the proceeds of the Loan available to the Successor Agency in one or more disbursements subject to annual appropriation from legally available funds of the City upon receipt of a written Loan Draw Request, executed by the Executive Director of the Successor Agency which references Section 3 and Section 4 of this Loan Agreement.

SECTION 3. **Use of the Loan.** The Successor Agency shall utilize the proceeds of the Loan as follows:

to pay the United States Treasury Department the sum not to exceed \$3,400,000, in one or more installments, as may be approved by the Internal Revenue Service as an arbitrage rebate payment under

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SECTION 4. **Source of Repayment of the Loan: Limited Subordination.**

- (A) Except as provided in paragraph (B), the outstanding balance of the Loan as disbursed by the City to the Successor Agency shall be repaid by the Successor Agency to the City on par with any other enforceable obligation of the Successor Agency falling within Health and Safety Code Section 34183(a)(2)(C) (indebtedness not qualifying as tax allocation bonds and certain revenue bonds) from Redevelopment Property Tax Trust Fund amounts remitted to the Successor Agency by the Los Angeles County Auditor-Controller.
- (B) Any portion of the unpaid principal balance of the Loan shall also be repaid by the Successor Agency from time-to-time from other revenues available to the Successor Agency, including from the cash proceeds of the disposition of land held for resale realized by the Successor Agency upon sale to third persons, including the “Southland Street Property” as referenced in the Long Range Asset Management Plan of the Successor Agency, net of the actual and reasonable expenses of such disposition of land held for resale to third persons. Payments of the Loan, if any, under this paragraph (B) shall augment and supplement the required payments described in paragraph (A).

SECTION 5. **Placement of Loan Obligation on the Successor Agency's ROPS-14-15-B.** Provided that this Loan Agreement is approved, the Successor Agency shall include this Loan Agreement as a listed enforceable obligation on the ROPS-14-15-B as shall be considered by the Successor Agency. The amount of that listed obligation shall be the not-to-exceed Loan Amount as set forth in Section 2. This Loan Agreement shall be included on each successive recognized obligation payment schedule for the Successor Agency for the former Huntington Park Community Development Commission, until the City is repaid the principal balance of the Loan Amount as actually drawn by the Successor Agency as evidenced by the written Loan Draw Requests as set forth in Section 2. The City Manager of the City shall establish a loan repayment ledger for the Loan and shall cause the outstanding unpaid principal balance of the Loan to the Successor Agency, as hereby approved, to be identified in the accounting records of the City, as a financial asset of the City which is payable to the City by the Successor Agency, in accordance with the terms set forth herein.

SECTION 6. **Term.** This Loan Agreement shall be in full force and effect from the date hereof until such time as the unpaid principal balance of the Loan has been repaid in full to the City.

SECTION 7. **Entire Agreement.** This Loan Agreement constitutes the entire agreement by and between the City and the Successor Agency with respect to the subject matter of this Loan Agreement, and may be amended only in writing.

SECTION 8. **Notice of Default and Remedies.** In the event of a default, the party who alleges a default shall give the other party thirty (30) days written notice of such default, with a copy of such notice of default to the Oversight Board and to the State Department of Finance. In the event that the party who is alleged to be in default does not promptly initiate a cure of the alleged default, and the applicable party hereto shall be entitled to pursue any and all remedies available under California law for purposes of enforcing the terms and conditions of this Loan Agreement.

APPROVED AND EXECUTED by signature of the authorized representatives of the City and the Successor Agency as of \_\_\_\_\_.

[SIGNATURES FOLLOW ON NEXT PAGE]

[City of Huntington Park and Successor Agency Loan Agreement No. \_\_\_\_: Not-to-Exceed \$3,500,000 (ROPS-\_\_: \_\_\_\_\_ – \_\_\_\_\_)]

CITY:

City of Huntington Park, a municipal corporation

By: \_\_\_\_\_  
City Manager

ATTEST:

By: \_\_\_\_\_  
Interim Deputy City Clerk

APPROVED AS TO FORM:

By: \_\_\_\_\_  
City Attorney

SUCCESSOR AGENCY:

City of Huntington Park as Successor Agency to the former Huntington Park Community Development Commission, a public body corporate and politic

By: \_\_\_\_\_  
Executive Director

ATTEST:

By: \_\_\_\_\_  
Interim Deputy City Clerk

APPROVED AS TO FORM:

By: \_\_\_\_\_  
City Attorney

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WHEREAS, the City of Huntington Park (the “City”) authorized the formation and operation of a community redevelopment agency within the territorial jurisdiction of the City pursuant to state law; and

WHEREAS, the State of California (the "State") has ordered the former Huntington Park Community Development Commission to be dissolved under the provisions of ABX1 26 (Stats 2011-12, 1st Ex. Sess., Chapter 5), as amended by AB



1 1484 (Stats 2012, Chapter 26), and collectively the State legislation identified in this  
2 sentence is referred to herein as the "State Redevelopment Dissolution Law"; and

3 WHEREAS, the City as Successor Agency to the former Huntington Park  
4 Community Development Commission ("Successor Agency") has initiated the  
5 implementation of the State Redevelopment Dissolution Law including the  
6 repayment of existing obligations, the marshaling of cash assets, non-cash assets  
7 and liabilities and the preparation of land assets for disposition and sale to third  
8 parties (including without limitation so-called "Land Held for Resale" including the  
9 "Southland Street Property") of the former Huntington Park Community Development  
10 Commission subject to the payment of enforceable obligations of the former  
11 Huntington Park Community Development Commission under applicable State and  
12 federal law, and such implementation of the State Redevelopment Dissolution Law  
13 has included, the preparation and submission to the State by the Successor Agency  
14 of a recognized obligation payment schedule for the period of January 1, 2015 to  
15 June 30, 2015, ("ROPS-14-15B") as provided under Health and Safety Code Section  
16 34177; and

17 WHEREAS, Health and Safety Code Section 34173(h) provides authorization  
18 for the City to loan funds to the Successor Agency to pay for administrative costs,  
19 enforceable obligations, or project-related expenses including arbitrage rebate  
20 payments to the United States Treasury, at the discretion of the City, and that such a  
21 loan shall be reflected on the recognized obligation payment schedule of the  
22 Successor Agency, which is subject to the approval of the Oversight Board for the  
23 Successor Agency; and  
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1 WHEREAS, the City and the Successor Agency have both determined that it is  
2 necessary and appropriate to enter into the Loan Agreement (Arbitrage Rebate), as  
3 herein provided below, in order that the City and the Successor Agency may comply  
4 with the State Redevelopment Dissolution Law and fund the arbitrage rebate  
5 payment to the United States Treasury as an enforceable obligation as required  
6 hereunder.

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8 NOW, THEREFORE, BE IT RESOLVED THAT THE OVERSIGHT BOARD FOR  
9 THE SUCCESSOR AGENCY FOR THE FORMER HUNTINGTON PARK  
10 COMMUNITY DEVELOPMENT COMMISSION DOES HEREBY RESOLVE, PASS,  
11 AND APPROVE AS FOLLOWS:

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13 SECTION 1. The recitals set forth above are true and correct and incorporated  
14 herein by reference.

15  
16 SECTION 2. The Oversight Board to the Successor Agency to the former  
17 Huntington Park Community Development Commission hereby approves the Loan  
18 Agreement (Arbitrage Rebate) between the City of Huntington Park and the  
19 Successor Agency to the former Huntington Park Community Development  
20 Commission, attached to this Resolution as Exhibit "A." The Loan in the maximum  
21 principal amount not-to-exceed Three Million Four Hundred Thousand Dollars  
22 (\$3,400,000), as hereby approved, shall be used and applied by the Successor  
23 Agency solely for the purpose set forth in Section 2 and Section 3 of the Loan  
24 Agreement

1 SECTION 3. The Loan Agreement (Arbitrage Rebate) shall be enrolled as an  
2 enforceable obligation of the Successor Agency on ROPS-14-15B, payable to the  
3 City of Huntington Park. The Loan Agreement as hereby approved by the Oversight  
4 Board shall take effect five (5) business days after the written notice and information  
5 as relates to the Loan Agreement and this approving Resolution of the Oversight  
6 Board has been given to the State Department of Finance as provided in Health and  
7 Safety Code Section 34179(h). For the purposes of any review of this Resolution as  
8 may hereafter be requested by the State Department of Finance, the Oversight  
9 Board hereby designates the following official to whom the State Department of  
10 Finance may make that request

11  
12 PASSED, APPROVED AND ADOPTED by the City of Huntington Park Oversight  
13 Board this \_\_\_\_ day of September, 2014, by the following vote:

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15 \_\_\_\_\_  
16 CHAIR, OVERSIGHT BOARD

17 ATTEST:

18  
19 \_\_\_\_\_  
20 Estevan Padilla, Deputy Clerk  
21 Los Angeles County Board of Supervisors Acting as Secretary to the Huntington  
22 Park Oversight Board  
23  
24  
25

1 COUNTY OF LOS ANGELES ) SS

2 CITY OF HUNTINGTON PARK )

3  
4 I, Estevan Padilla, Secretary of the Oversight Board, DO HEREBY CERTIFY  
5 that the foregoing Oversight Board Resolution No. OSB 2014-\_\_ was duly adopted  
6 by the Oversight Board and approved by the Chair at a meeting of said Oversight  
7 Board held on the 17<sup>th</sup> day of September, 2014 and that it was so adopted as  
8 follows:

9 AYES:

10 NOES:

11 ABSENT:

12 ABSTAINING:

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14 Dated:

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18 Estevan Padilla, Deputy Clerk  
19 Los Angeles County Board of Supervisors Acting as  
20 Secretary to the Huntington Park Oversight Board  
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